Comments of

The National Association of Manufacturers

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Manufacturing Tax Reform Working Group

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Comprehensive Pro-Growth Tax Reform: The Key to a Strong Manufacturing Sector

The National Association of Manufacturers (NAM)—the largest manufacturing association in the United States representing manufacturers in every industrial sector and in all 50 states—has long held that our current tax system is antiquated, fundamentally flawed, and discourages economic growth and U.S. competitiveness. NAM members strongly support efforts to make the tax code more pro-growth, pro-competitive, fairer, simpler and predictable. We very much appreciate the current focus in the White House and on Capitol Hill on improving our nation's tax system.

Because manufacturing's critical importance to our nation's economy, any effort to rewrite the federal tax code should result in a balanced, fiscally responsible plan that allows manufacturers in the United States to prosper, grow and create jobs and also enhances their global competitiveness. To that end, we offer the following goals and principles for comprehensive tax reform:

1. **Encourage Investment and Job Creation:** A tax reform plan should create a tax climate that promotes manufacturing in America by encouraging capital investment and job creation. Specific elements of a tax reform plan should include the following:

    - **A Lower Corporate Tax Rate:** The United States has the highest corporate tax rate among developed countries. Reducing it to 25 percent or lower would make the U.S. tax system more competitive with our major trading partners. The United States also taxes a broader base of income than most other countries. Consequently, any additional base broadening should recognize the negative impact of those changes on broad economic growth, competitiveness and capital-intensive industries like manufacturing. Some current tax incentives are key to a strong manufacturing sector, and the benefits of these provisions should be maintained in a new system. Similarly, and as noted below, a new system should not result in a net increase in manufacturers' tax burden—a change that would derail efforts to enhance U.S. economic growth, investment and jobs.

    - **Lower Taxes for Flow-Through Businesses:** About two-thirds of manufacturers are organized as "flow-through" entities and pay taxes at individual rates. For them, it is critical for tax rates on individuals to be as low as possible. A new system should not increase the tax burden on these businesses to pay for other tax reform measures.

- **A Strong, Permanent and Competitive Research and Development (R&D) Incentive:** Any tax reform plan must recognize the important role of research and technology investment in the growth of U.S. jobs and innovation. The goal is for the United States to retain and attract global R&D activities. The certainty provided by a strengthened, permanent R&D provision would enhance its incentive value.

- **Taxation of Investment:** Keeping the tax rate on dividends and capital gains as low as possible and applying the same rate to all investment income will help public companies attract investors and enable them to finance investment and create jobs. An effective way to spur business investment and make the tax system more competitive is through a robust capital cost recovery.

2. **Promote International Competitiveness:** Current U.S. tax laws make it difficult for U.S. companies with worldwide operations to thrive and compete in the global marketplace. If U.S. companies cannot compete abroad, where 95 percent of the world's consumers are located, the U.S. economy suffers from the loss of both foreign markets and domestic jobs that support foreign operations. To make U.S. multinationals more competitive, the NAM supports lower corporate tax rates, a permanent R&D incentive and the adoption of a competitive territorial tax system similar to systems in most industrial countries.

   - **Elimination of the Double-Tax Burden:** A U.S. territorial system should be based on the principle that there should be no double-tax burden imposed by the United States. At a minimum, a new system should exempt most or all active foreign earnings from taxation and avoid the imposition of a stealth tax on foreign earnings through expense allocations.

   - **Alignment with International Norms:** A U.S. territorial system should be structured to enhance U.S. competitiveness, not raise revenue. Moving to a territorial system like those used by other industrialized countries will enable U.S.-based companies to be more competitive.

   - **A Smooth and Effective Transition:** A move to a territorial tax system should include fair transition rules that allow repatriation of foreign earnings on a voluntary basis and minimize administrative and compliance costs on companies.

3. **Ensure a Simpler, Fairer and Balanced System:** A new tax system should be simpler and more administrable and should treat all businesses fairly without regard to size, type of entity or sector.

   - **No Net Increase in Manufacturers' Tax Burden:** Any alternative that shifts more of the current tax burden to manufacturers will discourage job creation and investment and hamper overall economic growth.

   - **Elimination of the Alternative Minimum Tax:** A new system should eliminate both the individual and corporate alternative minimum tax rules, which are inherently complex and unfair.

- **Administerability:** A new system should incorporate rules that make it easier for the Treasury to administer the law and for taxpayers to comply with it. Unnecessary complexity is not productive from an economic perspective and undermines taxpayers' confidence in the fairness of the law.

- **Predictability:** A predictable tax code that provides certainty is essential for effective business and tax planning. A fair and stable tax code will make it easier for manufacturers in the United States to compete in the global marketplace.

- **Transition Rules:** A new system must include broad transition rules that provide fair and equitable treatment for taxpayers that have generated substantial attributes based on current law. While the NAM strongly advocates for comprehensive reform of our current tax code, we also believe in maintaining our current tax system until policymakers agree on a final reform plan. Piecemeal changes or repealing longstanding rules will inject more uncertainty into business planning, making U.S. companies even less competitive, and threaten economic growth and U.S. jobs.

Conclusion

As outlined in the NAM's *A Growth Agenda: Four Goals for a Manufacturing Resurgence in America*, a key objective for the association is to create a national tax climate that enhances the global competitiveness of manufacturers in the United States and avoids policy changes that would increase the tax burden on the manufacturing sector. Manufacturers very much appreciate the efforts of Chairman Camp and the members of the House Ways and Means Committee for their diligent work to reform the U.S. tax system. Manufacturers thank you for the opportunity to share our thoughts and concerns with you, and we look forward to further discussing these issues and working with the Manufacturing Tax Reform Working Group and the rest of the committee to achieve a pro-growth, pro-competitiveness and pro-manufacturing tax system.